NORTHMARQ

Orange County Multifamily

Investment Activity Spikes to Start 2021

Highlights

- After some mixed performance in 2020, the Orange County multifamily market began this year on an upswing. Deliveries of new units were modest, vacancies ticked lower, and rents rose. Additional improvement is forecast for the remainder of the year as the local economy completely reopens.
- Apartment vacancy dipped 10 basis points in the first quarter, reaching 3.6 percent. The rate has been very steady in recent periods and is identical to the figure from one year ago. Some additional tightening is forecast for the remainder of 2021.
- After some contraction in the second half of 2020, rents crept higher during the first quarter. Asking rents rose 1 percent to start the year, reaching $1,973 per month in the first quarter. Year over year, asking rents are down 1.7 percent.
- The local investment market started 2021 on strong footing, with several large properties changing hands. The median price spiked to $400,000 per unit in deals that closed during the first quarter, while cap rates averaged 3.7 percent.

Q1 Snapshot	Orange County Market
Market Fundamentals	
Vacancy	**3.6%**
- Year Over Year Change	**0 bps**
Asking Rent	**$1,973**
- Year Over Year Change	**-1.7%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$400,000**
Cap Rates (Avg YTD)	**3.7%**
Construction Activity	
Units Under Construction	**4,511**
Units Delivered YTD	**296**

Orange County Multifamily Market Overview

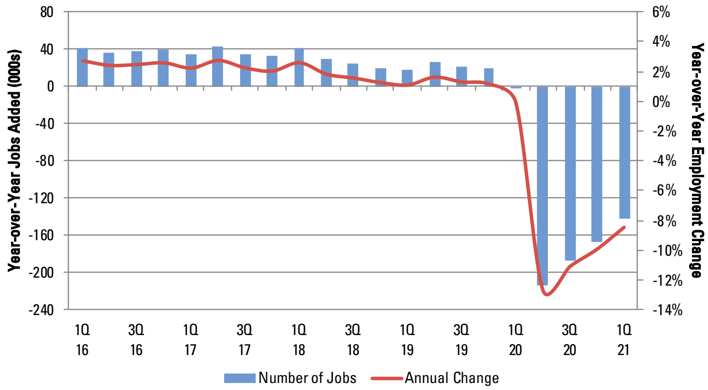
The Orange County multifamily market recorded some modest improvement during the first quarter with vacancies ticking lower and rents rising. While vacancies have remained in a tight range for nearly two years, rents have been uneven. Rents ticked lower in 2020 as the economy slowed, but the trend reversed at the start of 2021, and additional gains are likely in the coming quarters. The local economy should post strong growth in the year ahead, particularly as the state opens up in time for the summer travel season. An additional source of growth is likely to be the area's large white-collar workforce, which has been coming back at a steady pace in recent quarters.

Investment activity for multifamily properties in Orange County accelerated at the end of last year and that velocity continued into 2021. Transaction activity in the first quarter more than doubled levels from the same period in 2020, with the surge in sales most clearly demonstrated in transactions over $100 million. The rise in sales of newer, larger properties has pushed prices higher; the median price during the first quarter spiked to $400,000 per unit. Cap rates compressed at the start of the year, averaging just 3.7 percent. The trends established during the first quarter should continue in the coming quarters. Developers were particularly active from 2016 to 2018, and some of these newer assets are likely to change hands after leasing up.

Employment

- Employment in Orange County is recovering, but the pace of job additions has slowed in recent quarters. Employers added back 12,200 jobs in the first few months of 2021, after adding more than 20,000 jobs in both the third quarter and fourth quarter of 2020.
- Year over year, total employment in Orange County is down 8.5 percent, with a net loss of approximately 140,000 jobs. As the local economy reopens, employers are forecast to bring back workers, particularly in the leisure and hospitality sector, which has accounted for more than half of the total job losses in Orange County.
- Orange County's professional and business services sector is likely to be a source of employment gains in the coming quarters. Professional employment totals have risen by approximately 5,000 net jobs in each of the past three quarters, and further additions are likely through the remainder of 2021.
- **Forecast:** As the local economy rebounds, employers will continue to add back workers. Total employment in Orange County is forecast to expand by 3.6 percent in 2021, with 55,000 new jobs added.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers added back 12,200 jobs in the first few months of 2021

Vacancy

- Vacancy dipped 10 basis points in the first quarter, reaching 3.6 percent. The current rate is identical to the figure from one year ago.
- Class A vacancy has ticked higher in each of the past two quarters, rising 30 basis points in both the fourth quarter of 2020 and again in the first quarter of this year. Despite the recent increases, the current Class A vacancy rate of 4.6 percent matches the figure from the first quarter of last year. Class A vacancy peaked in 2018 when new apartment construction was most active and has trended lower in subsequent periods.
- A pause in new development has allowed vacancy to tighten in the South Anaheim submarket. Vacancy in South Anaheim had topped 6 percent in 2018 and for much of 2019. Since then, construction has slowed in the area and the vacancy rate has improved. Year over year through the first quarter, vacancy in the submarket has tightened by 180 basis points to 4 percent.
- **Forecast:** Vacancy should tighten in 2021, with the economy regaining momentum and construction of new apartments lagging levels of renter demand. The rate is forecast to decline 30 basis points in 2021, ending the year at 3.4 percent.

Vacancy Trends

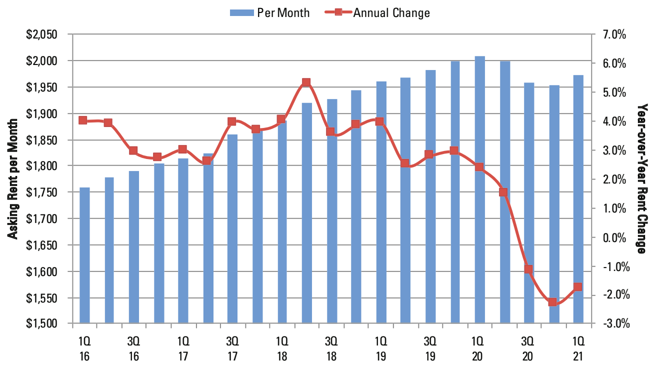
Sources: NorthMarq, Reis

Vacancy dipped 10 basis points in the first quarter, reaching 3.6 percent

Rents

- Rents advanced during the first quarter, after ticking lower in the second half of last year. Asking rents rose 1 percent from the end of 2020 to the first quarter of this year, reaching $1,973 per month.
- While rents rose at the start of 2021, they are still slightly lower than one year ago. Current asking rents are down 1.7 percent year over year. Rents had briefly topped $2,000 per month in early 2020.
- Asking rents for Class A properties reached $2,350 per month as of the first quarter. Rents for Class A apartments are down 2.4 percent year over year but did inch higher at the start of 2021. As the economy heats up and absorption gains momentum, Class A rents should push up.
- **Forecast:** Asking rents are forecast to rise approximately 3.5 percent in 2021, reaching roughly $2,020 per month.

Rent Trends



Sources: NorthMarq, Reis

Asking rents rose 1 percent from the end of 2020 to the first quarter of this year, reaching $1,973 per month

Development and Permitting

- Apartment construction has slowed following a very active period from 2016 to 2018. In the first quarter, projects totaling approximately 300 units came online, down from the nearly 900 units that were delivered during the same period, one year earlier.
- Projects totaling more than 4,500 units are currently under construction, but deliveries will be spread over the next few years. Apartment construction in 2021 will likely closely track levels from the past two years.
- Developers pulled permits for approximately 1,400 multifamily units during the first quarter, up 35 percent from levels recorded during the same period in 2020. The pace of permitting slowed in the middle part of last year but should be fairly active in 2021. Multifamily permitting should accelerate by nearly 20 percent this year.
- **Forecast:** Developers are forecast to deliver projects totaling nearly 2,400 units in 2021, 6 percent above the total completions from last year.

Development Trends

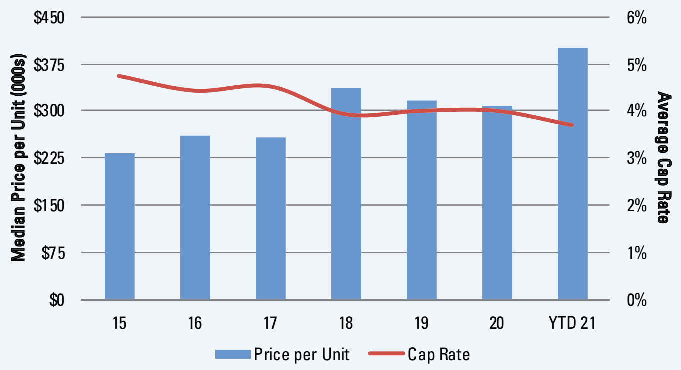
Sources: NorthMarq, Reis

Apartment construction has slowed following a very active period from 2016 to 2018

Multifamily Sales

- Sales activity spiked at the end of last year with more transactions executing in the fourth quarter than in the previous three quarters combined. The momentum in the market carried over into the first quarter of this year. The number of property sales in the first quarter did not quite match levels from the end of 2020, but activity was up more than 100 percent from the first quarter of last year.
- The surge in activity was most clearly demonstrated in the sale of larger assets. More properties sold in excess of $100 million during the first quarter of this year than in all of 2020.
- With larger, newer Class A projects changing hands, the median price surged. The median price during the first quarter was $400,000 per unit, up 29 percent from the median price in 2020.
- As prices rose, cap rates compressed to start the year. The average cap rate in the first quarter was 3.7 percent, down 30 basis points from the average in 2019 and 2020.

Investment Trends



Sources: NorthMarq, CoStar

The median price during the first quarter was $400,000 per unit

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

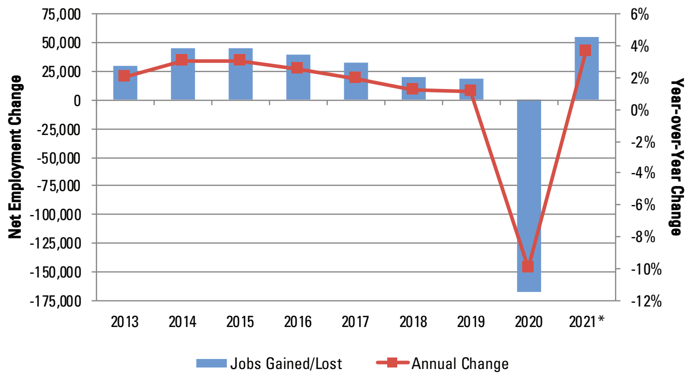
Property Name	Street Address	Units	Sales Price	Price/Unit
Jefferson Platinum Triangle	1781 S Campton Ave., Anaheim	400	$160,000,000	$400,000

Looking Ahead

The Orange County multifamily market is expected to move in a positive direction in 2021, after performing steadily throughout a tumultuous economy in 2020. Renter demand for units should be sparked by a quick and widespread recovery in the local labor market, and new deliveries will likely not keep up with an accelerating pace of demand. Rents should rise as a result, building on a healthy increase recorded during the first quarter.

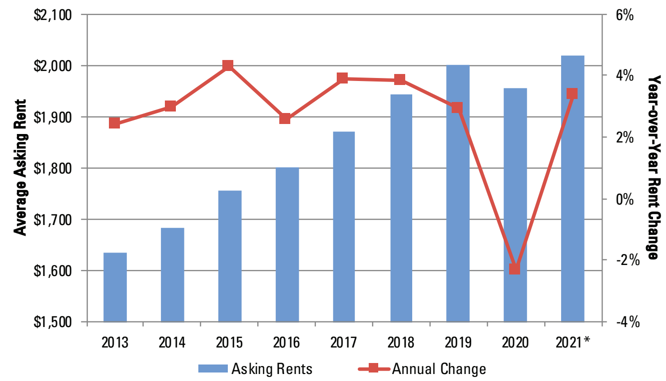
Apartment properties in Orange County are expected to remain in high demand as they become available for acquisition. The uncertainty and logistical challenges that kept investors on the sidelines in 2020 are being removed, and the healthy property performance forecast for the remainder of this year should facilitate transaction activity. The most recent two quarters of sales trends highlight the prevailing market sentiment, and properties are expected to continue to change hands at sub-4 percent cap rates in 2021.

Employment Forecast



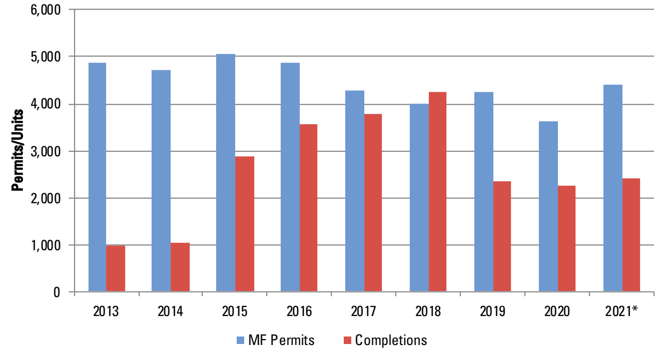
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



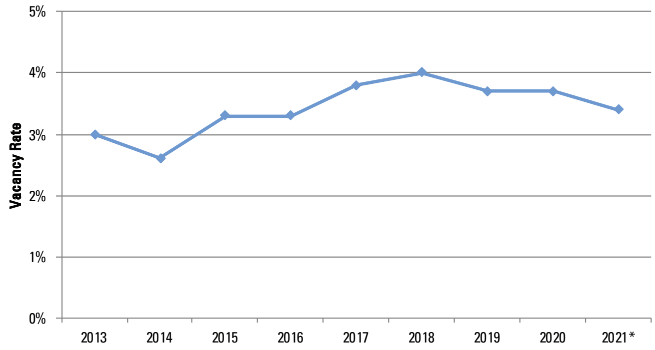
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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